

VZCZCXRO7175
RR RUEHDBU RUEHFL RUEHKW RUEHLA RUEHROV RUEHSR
DE RUEHVB #0920 2131346
ZNY CCCCC ZZH
R 011346Z AUG 06
FM AMEMBASSY ZAGREB
TO RUEHC/SECSTATE WASHDC 6470
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE

C O N F I D E N T I A L ZAGREB 000920

SIPDIS

SIPDIS

STATE FOR EUR/SCE, EUR/ACE
USEU FOR MIKE MOZUR

E.O. 12958: DECL: 08/01/2016
TAGS: [ECON](#) [ETRD](#) [PREL](#) [HR](#)
SUBJECT: CROATIA CONCERNED PROTECTIONISM COMPROMISES CEFTA

Classified By: EconOff Nicholas Berliner for reasons 1.4 b/d.

11. (C) Summary: Croatian MFA and Ministry of Economy contacts have expressed concern with the direction of talks on the enlargement of CEFTA. Min Econ Assistant Minister Igor Lucic told EconOff on July 27 that both Serbia and Bosnia were taking positions that the Croatian side views as incompatible with the spirit and intent of CEFTA and represent a step back from the terms of their respective bilateral trade agreements. The sides are also divided over the creation and location of a secretariat for CEFTA. While both Croatia and Bosnia have resisted the creation of such a body, Serbia is in favor and has offered to host it in Belgrade. MFA State Secretary Hidajet Biscevic told Charge on July 31 that, although the GOC does not like this idea, it may be willing to consider it as part of a compromise deal and a gesture of regional good will. Both Biscevic and Lucic were optimistic that an Aug 1 meeting of regional PMs in Salzburg could generate progress towards a compromise solution. End Summary.

12. (C) EconOff met on July 27 with Croatian Ministry of Economy Assistant Minister Igor Lucic to discuss progress on CEFTA enlargement. Lucic, a self-described close personal friend of PM Sanader from Split and, until recently, director of the SEM Marina ferry company, was generally upbeat about the prospects for an agreement on CEFTA enlargement by year's end. However, he said that talks were bogged down by what he described as intransigence on the part of Bosnia and Serbia, who have sought more restrictive conditions for several products that are important Croatian exports, including meats and milk in the case of Bosnia, and tobacco and petroleum products in the case of Serbia. Lucic noted that both countries were trying to create terms more restrictive than those spelled out under existing bilateral (and partially suspended) agreements, which is not in keeping with the spirit of CEFTA. Both Bosnia and Serbia represent important and growing markets for Croatian exporters who, lacking the capacity to compete strongly in Western European markets, have concentrated their efforts on the markets of the former Yugoslavia where many enjoy established brand recognition. Lucic cited Bosnia's partial suspension of its bilateral trade agreement with Croatia to note that Croatia's commodity exchange with Bosnia this year is now 1 percent lower than during the equivalent period in 2004 while Bosnian agricultural exports to Croatia have risen 32 percent in the same period.

13. (C) Lucic said other points where the sides are still far apart are on the liberalization of services and public procurement, both areas where Croatia believes itself to be in a strong position. He cited Serbia as a particular obstacle on these points. Lucic said Serbia was also isolated in its call for a secretariat to oversee CEFTA, with he said Croatia, Bosnia, Macedonia and Montenegro all oppose.

However, MFA State Secretary Hidajet Biscevic told Charge on July 31 that Croatia may be willing to consider Serbia's proposal of a secretariat in Belgrade as part of a compromise on a final deal and as a demonstration of regional cooperation. Both were optimistic that progress would be achieved at an August 1 meeting of regional PMs in Salzburg, Austria.

14. (C) Comment: There has been no public discussion in Croatia of a Belgrade CEFTA secretariat, which would likely stir up controversy, as politicians of various stripes would evoke specters of the old Yugoslavia. In fact, when asked directly about PM Sanader's call for Ukraine to be included in CEFTA talks, Lucic told EconOff that, while Croatia views Ukraine as a part of the family of European nations, expanding CEFTA to non-Balkan countries was symbolically important for Croatia precisely so that CEFTA would appear less like a new Yugoslavia.
DELAWIE